

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

July 8, 2004

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section and a grand audit performed by an external firm, for the quarter ending June 30, 2004.

Respectfully submitted,

Larry Walker

AUDITOR/CONTROLLER-RECORDER

By: _____

Howard M. Ochi

Chief Deputy Auditor

LDW:HO:dlp

Attachments (5)



AUDIT REPORTS

**PREPARED BY INTERNAL AUDITS SECTION
AND OUTSIDE AUDIT AGENCIES**

FOR THE QUARTER ENDING

June 30, 2004

Office of

AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

FISCAL GROUP

Treasurer's Investment Audit – October 28, 2003

SPECIAL DISTRICTS

COUNTY SERVICE AREA'S

CSA 53 Big Bear/Fawnskin
CSA 64 Spring Valley Lake
CSA 70 Zone R-40 Upper North Bay Lake Arrowhead
CSA 79 Green Valley Lake

FIRE PROTECTION DISTRICT

Central Valley Fire Protection District
Monte Vista Fire Protection District

PARK AND RECREATION DISTRICT

Big Bear Valley Park and Recreation District

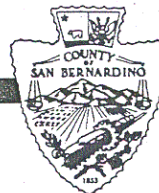
JPA'S AND OTHERS

Twentynine Palms Public Cemetery District

GRANT AUDITS PERFORMED BY EXTERNAL FIRMS

San Bernardino County Sheriff's Department Crime Lab Improvement Program Grant

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

March 4, 2004

Richard Larsen, Treasurer-Tax Collector
172 W. Third Street, First Floor
San Bernardino, CA 92415-0360

SUBJECT: TREASURER'S INVESTMENTS AUDIT OCTOBER 28, 2003

Introductory Remarks

In accordance with California Government Code Sections 26920 through 26923 and County Board of Supervisor's resolution dated July 6, 1971, we have completed a reconciliation of the Treasurer's Cash Book as of October 28, 2003. In addition, we evaluated investments for compliance with California Government Code Section 53601, "Securities Authorized for Investment" and with the Treasurer's Investment Policy.

Scope of Audit

We audited selected financial transactions, operations, procedures, and controls in effect over cash and investments. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other auditing procedures as we considered necessary in the circumstances.

Audit Results

Cash and investments of \$2,518,411,808 as stated in the Treasurer's cashbook at October 28, 2003 reconciled to supporting documentation in all material respects. There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy.

Our study and evaluation, made for the limited purpose described above, would not necessarily disclose material weaknesses in internal controls. Nothing came to our attention that indicated procedures and controls are not materially adequate.

Audrpt\Treasurer's Investments
Richard Larsen, Treasurer-Tax Collector
March 4, 2004
Page -2-

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Carol Lombard
Internal Auditor II
Internal Audits Section

Quarterly Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Copies to:

County Recorder
Investment Oversight Committee (4)
Audit File (3)

Date Report Distributed: _____

LDW:BKR:CL:spr.1

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 53
BIG BEAR / FAWNSKIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

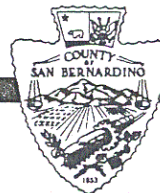
Internal Audits Section
Office of the Auditor/Controller-Recorder
September 22, 2003

**County of San Bernardino Special Districts
County Service Area No. 53
Big Bear / Fawnskin**

Table of Contents

	Page
Independent Auditor's Report	1 – 2
 Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
<i>Proprietary Funds</i>	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	11
Notes to the Financial Statements	12 – 24
 Required Supplementary Information	
Budgetary Comparison Schedules	25 – 26

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 22, 2003

Peter Hills, County Fire Warden
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 53 – BIG BEAR /
FAWNSKIN FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 53 – Big Bear / Fawnskin for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the County of San Bernardino Special Districts County Service Area No. 53 – Big Bear / Fawnskin (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on pages 25 – 26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

Date Report Distributed: _____

LDW:BKR:CL:dlp1

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 102,923	\$ 784,890	\$ 887,813
Accounts receivable - net	-	72,265	72,265
Taxes receivable	26,945	325	27,270
Interest receivable	1,257	3,909	5,166
Total current assets	<u>131,125</u>	<u>861,389</u>	<u>992,514</u>
Noncurrent assets:			
Capital assets:			
Land	155,395	-	155,395
Improvements to land	6,781	-	6,781
Construction in progress	-	41,579	41,579
Utility plant in service	-	3,518,308	3,518,308
Structures and improvements	62,223	-	62,223
Equipment and vehicles	497,976	27,768	525,744
Less accumulated depreciation	<u>(505,302)</u>	<u>(1,978,116)</u>	<u>(2,483,418)</u>
Total noncurrent assets	<u>217,073</u>	<u>1,609,539</u>	<u>1,826,612</u>
Total assets	<u><u>\$ 348,198</u></u>	<u><u>\$ 2,470,928</u></u>	<u><u>\$ 2,819,126</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 153	\$ 15,835	\$ 15,988
Total current liabilities	<u>153</u>	<u>15,835</u>	<u>15,988</u>
Total liabilities	<u>153</u>	<u>15,835</u>	<u>15,988</u>
NET ASSETS			
Invested in capital assets	217,073	1,609,539	1,826,612
Unrestricted	<u>130,972</u>	<u>845,554</u>	<u>976,526</u>
Total net assets	<u>348,045</u>	<u>2,455,093</u>	<u>2,803,138</u>
Total liabilities and net assets	<u><u>\$ 348,198</u></u>	<u><u>\$ 2,470,928</u></u>	<u><u>\$ 2,819,126</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Governmental Activities	Business-Type Activities	Total
EXPENSES			
Salaries and benefits	\$ 3,171	\$ 238,206	\$ 241,377
Services and supplies	523,526	291,868	815,394
Depreciation	10,347	79,437	89,784
Operating transfers out	44,433	9,165	53,598
Total expenses	<u>581,477</u>	<u>618,676</u>	<u>1,200,153</u>
PROGRAM REVENUES			
Charges for services	-	420,174	420,174
Total program revenues	<u>-</u>	<u>420,174</u>	<u>420,174</u>
Net program (expense) revenue	<u>(581,477)</u>	<u>(198,502)</u>	<u>(779,979)</u>
GENERAL REVENUES			
Property taxes	460,716	1,034	461,750
Special assessments	-	13,523	13,523
Other taxes	19,500	-	19,500
Interest revenue	5,821	23,064	28,885
Other state aid	10,447	-	10,447
Other revenues	3,811	8,873	12,684
Sale of capital assets	1,158	-	1,158
Operating transfers in	9,165	-	9,165
Total general revenues	<u>510,618</u>	<u>46,494</u>	<u>557,112</u>
Change in Net Assets	(70,859)	(152,008)	(222,867)
Net Assets - beginning	<u>418,904</u>	<u>2,607,101</u>	<u>3,026,005</u>
Net Assets - ending	<u><u>\$ 348,045</u></u>	<u><u>\$ 2,455,093</u></u>	<u><u>\$ 2,803,138</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Balance Sheet
Governmental Funds
June 30, 2003

	<u>Lighting (SJP)</u>	<u>Fire (SJS)</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 4,793	\$ 98,130	\$ 102,923
Interest receivable	31	1,226	1,257
Taxes receivable	<u>322</u>	<u>26,623</u>	<u>26,945</u>
Total assets	<u>\$ 5,146</u>	<u>\$ 125,979</u>	<u>\$ 131,125</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ 153</u>
Total Liabilities	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ 153</u>
Fund balances:			
Unreserved	<u>4,993</u>	<u>125,979</u>	<u>130,972</u>
Total fund balances	<u>4,993</u>	<u>125,979</u>	<u>130,972</u>
Total liabilities and fund balances	<u>\$ 5,146</u>	<u>\$ 125,979</u>	

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>217,073</u>
Net assets of governmental activities	<u>\$ 348,045</u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	Lighting (SJP)	Fire (SJS)	Total
REVENUES			
Property taxes	\$ 5,524	\$ 455,192	\$ 460,716
Other taxes	215	19,285	19,500
Interest revenue	205	5,616	5,821
State aid	125	10,322	10,447
Other	40	3,771	3,811
Total revenues	<u>6,109</u>	<u>494,186</u>	<u>500,295</u>
EXPENDITURES			
Salaries and benefits	3,113	58	3,171
Services and supplies	9,410	514,116	523,526
Total expenditures	<u>12,523</u>	<u>514,174</u>	<u>526,697</u>
Excess of revenues over (under) expenditures	(6,414)	(19,988)	(26,402)
OTHER FINANCING SOURCES (USES)			
Sales of capital assets	-	1,158	1,158
Transfers out	<u>-</u>	<u>(44,433)</u>	<u>(44,433)</u>
Total other financing sources (uses)	<u>-</u>	<u>(43,275)</u>	<u>(43,275)</u>
Net change in fund balances	(6,414)	(63,263)	(69,677)
Fund balances - beginning	<u>11,407</u>	<u>189,242</u>	<u>200,649</u>
Fund balances - ending	<u><u>\$ 4,993</u></u>	<u><u>\$ 125,979</u></u>	<u><u>\$ 130,972</u></u>

The accompanying notes are an integral part of these financial statements

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances-total governmental funds	\$ (69,677)
--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures and receipts of capital assets by donation or transfer as a memo entry only. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay or transfers in of capital assets in the current period.

(1,182)

Change in net assets of governmental activities

\$ (70,859)

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Enterprise Fund
	Sewer
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 784,890
Accounts receivable - net	72,265
Taxes receivable	325
Interest receivable	3,909
Total current assets	<u>861,389</u>
Noncurrent assets:	
Capital Assets:	
Construction in progress	41,579
Utility plant in service	3,518,308
Equipment and vehicles	27,768
Less accumulated depreciation	<u>(1,978,116)</u>
Total noncurrent assets	<u>1,609,539</u>
Total Assets	<u><u>\$ 2,470,928</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 15,835
Total Current Liabilities	<u>15,835</u>
NET ASSETS	
Invested in capital assets	1,609,539
Unrestricted	<u>845,554</u>
Total Net Assets	<u>2,455,093</u>
Total Liabilities and net assets	<u><u>\$ 2,470,928</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Enterprise Fund
	Sewer
OPERATING REVENUES	
Charges for services	\$ 420,174
Total operating revenues	<u>420,174</u>
OPERATING EXPENSES	
Salaries and benefits	238,206
Services and supplies	291,868
Depreciation	79,437
Total operating expenses	<u>609,511</u>
Operating income (loss)	<u>(189,337)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	23,064
Property taxes	1,034
Special assessments	13,523
Other nonoperating revenues	8,873
Total nonoperating revenues (expenses)	<u>46,494</u>
Income before transfers	<u>(142,843)</u>
Transfers out	<u>(9,165)</u>
Change in net assets	(152,008)
Net Assets - beginning	<u>2,607,101</u>
Net Assets - ending	<u><u>\$ 2,455,093</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Enterprise Fund Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 409,249
Payments to employees for services	(238,206)
Payments to suppliers for goods and services	(276,903)
Net cash provided (used) by operating activities	<u>(105,860)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Taxes received	944
Special assessments	13,523
Other receipts	8,873
Net cash provided (used) by noncapital financing activities	<u>23,340</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets.	(18,555)
Net cash provided (used) by capital and related financing activities	<u>(18,555)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	27,667
Net cash provided (used) by investing activities	<u>27,667</u>
Net increase (decrease) in cash and cash equivalents	(73,408)
Cash and cash equivalents - beginning	858,298
Cash and cash equivalents - ending	<u><u>\$ 784,890</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (189,337)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	79,437
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	(10,925)
Decrease (increase) in construction in progress	14,890
Increase (decrease) in accounts payable	75
Net cash provided (used) by operating activities	<u><u>\$ (105,860)</u></u>

The accompanying notes are an integral part of these financial statements

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003**

	Agency Fund
	<u>1915 Bond Act</u>
ASSETS	
Cash and cash equivalents	<u>\$ 31,785</u>
Total current assets	<u><u>\$ 31,785</u></u>
 LIABILITIES	
Due to bondholders	<u>\$ 31,785</u>
Total liabilities	<u><u>\$ 31,785</u></u>

The accompanying notes are an integral part of these financial statements

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 53 - Big Bear / Fawnskin ("District") – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino ("County") was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County ("Board") on January 2, 1968 with the active powers of fire (inspection, suppression, protection, first aid, and rescue), sewer (collection and disposal), water, road (maintenance and improvements), and street lighting. Currently, the governmental reporting entity consists of fire and sewer services to the community of Fawnskin, and street lighting to the north shore of Big Bear Lake.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable, or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to, or impose a financial burden on, the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The District reports the following major governmental funds:

The *special revenue fund* labeled “Fire” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled “Lighting” provides streetlights for the north shore of Big Bear Lake.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The District reports the following major proprietary funds:

The *enterprise fund* labeled “Sewer” accounts for the sanitation activities of the District.

Agency funds (fiduciary-type funds) are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the District's single agency fund. The fund is used to account for the

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements. See note 8.on page 24.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

The \$72,265 accounts receivable balance in the Business-Type Activities column of the statement of net assets at June 30, 2003 is net of an allowance for doubtful accounts of \$4,020.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility plant in service	45

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Transfer of asset from proprietary fund	\$ 9,165
Depreciation expense	<u>1 0,347</u>
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (1,182)</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2003 follows. All governmental assets and depreciation are from the fire protection activity.

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3: CAPITAL ASSETS - *Continued*

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 155,395	\$ -	\$ -	\$ 155,395
Total capital assets not being depreciated	155,395	-	-	155,395
Capital assets being depreciated:				
Improvements to land	6,781	-	-	6,781
Structures and improvements	53,058	9,165	-	62,223
Vehicles	506,892	-	14,019	492,873
Equipment	5,103	-	-	5,103
Total capital assets being depreciated	571,834	9,165	14,019	566,980
Less accumulated depreciation for:				
Improvements to land	4,570	235	-	4,805
Structures and improvements	41,025	1,180	-	42,205
Vehicles	459,580	8,592	14,019	454,153
Equipment	3,799	340	-	4,139
Total accumulated depreciation	508,974	10,347	14,019	505,302
Total capital assets being depreciated, net	62,860	(1,182)	-	61,678
Total net capital assets	\$ 218,255	\$ (1,182)	\$ -	\$ 217,073

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3: CAPITAL ASSETS – Continued

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Business-type activities				
Capital assets not being depreciated:				
Construction in progress	\$ 63,758	\$ 5,248	\$ 27,427	\$ 41,579
Total capital assets not being depreciated	63,758	5,248	27,427	41,579
Capital assets being depreciated:				
Utility plant in service	3,514,936	3,372	-	3,518,308
Vehicles	-	13,307	-	13,307
Equipment	14,461	-	-	14,461
Total capital assets being depreciated	3,529,397	16,679	-	3,546,076
Less accumulated depreciation for:				
Utility plant in service	1,890,697	78,109	-	1,968,806
Vehicles	-	739	-	739
Equipment	7,982	589	-	8,571
Total accumulated depreciation	1,898,679	79,437	-	1,978,116
Total capital assets being depreciated, net	1,630,718	(62,758)	-	1,567,960
Total net capital assets	\$ 1,694,476	\$ (57,510)	\$ 27,427	\$ 1,609,539

Construction in progress represents the following project:

Project Title	Budget	YTD Expenses	Projected Completion Date
Replace Vacuum System	\$103,773	\$ 5,248	2004
Total		\$5,248	

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the “Participating Members.” The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino ("County"). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties ("CSAC") Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5: SELF INSURANCE - Continued

Changes in the claims liability amount in fiscal years 2002 and 2003 were: (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2002-03	\$95,288	\$23,647	\$(32,171)	\$86,764
2001-02	\$61,172	\$61,832	\$(27,716)	\$95,288

The District did not have any outstanding liability claims for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and worker's compensation for the year ending June 30, 2003.

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 7: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were \$348,045 for governmental activities and \$2,455,093 for business-type activities.

	Governmental Activities	Business-Type Activities
Invested in Capital Assets, Net of Related Debt: June 30, 2003		
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 217,073	\$ 1,609,539
Unrestricted	130,972	845,554
Total Net Assets	\$ 348,045	\$ 2,455,093

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8: SPECIAL ASSESSMENT ACCOUNTING – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 to finance certain sewer improvements. There were no outstanding Special Assessment Bonds at June 30, 2003. The Statement of Fiduciary Net Assets on page 11 shows the cash and cash equivalents in reserve funds at June 30, 2003.

Disposition of the reserve funds will be determined by the Board of Supervisors during the next fiscal year.

NOTE 9: INTERFUND TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
EAE	To EBA for Operations & Maintenance	\$ 222,006
EBA	To Capital Replacement Reserve (EAE) - Depreciation Expense	87,626
EBA	From EAE for Operations & Maintenance	(222,006)
EAE	From Operating Acct (EBA) – Depreciation Expense	(87,626)
	Net Interfund Transfers	<u>\$ -</u>

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2003

Lighting (SJP)	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (negative)
	Original	Final		
Budgetary fund balance July 1, 2002	\$ 11,407	\$ 11,407	\$ 11,407	\$ -
Resources (inflows):				
Property Taxes	16,871	16,871	5,524	(11,347)
Use of Money & Prop	-	-	-	-
Other Taxes	-	-	215	215
Interest and Rents	-	-	205	205
Other State Aid	-	-	125	125
Charges for Services	-	-	-	-
Other Revenue	-	-	41	41
Amounts available for appropriation	<u>\$ 28,278</u>	<u>\$ 28,278</u>	<u>\$ 17,517</u>	<u>\$ (10,761)</u>
Charges to appropriations (outflows)				
Salaries and Benefits	\$ 3,113	\$ 3,113	\$ 3,113	\$ -
Services and Supplies	12,531	12,531	9,410	3,121
Equipment and Vehicles	-	-	-	-
Operating Transfers Out	-	-	-	-
Capital Outlay	-	-	-	-
Reimbursements	-	-	-	-
Reserves & Contingencies	12,634	12,634	-	12,634
Total charges to Appropriations	<u>28,278</u>	<u>28,278</u>	<u>12,523</u>	<u>15,755</u>
Budgetary Fund Balance, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,994</u>	<u>\$ 4,994</u>

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2003

Fire (SJS)	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (negative)
Budgetary fund balance July 1, 2002	\$ 189,242	\$ 189,242	\$ 189,242	\$ -
Resources (inflows):				
Property Taxes	430,850	430,850	455,192	24,342
Use of Money & Prop	2,647	2,647	-	(2,647)
Other Taxes	-	-	19,284	19,284
Interest and Rents	-	-	5,616	5,616
Other State Aid	-	-	10,322	10,322
Operating Transfers In	-	-	-	-
Sale of Capital Assets	-	-	1,158	1,158
Charges for Services	-	-	-	-
Other Revenue	-	-	3,771	3,771
Amounts available for appropriation	<u>\$ 622,739</u>	<u>\$ 622,739</u>	<u>\$ 684,585</u>	<u>\$ 61,846</u>
Charges to appropriations (outflows)				
Salaries and Benefits	\$ 1,979	\$ 1,979	\$ 58	\$ 1,921
Services and Supplies	508,544	508,544	514,116	\$ (5,572)
Equipment and Vehicles	-	-	-	-
Debt Service Principal	-	-	-	-
Debt Service Interest	-	-	-	-
Operating Transfers Out	44,433	44,433	44,433	-
Capital Outlay	-	-	-	-
Reimbursements	-	-	-	-
Reserves & Contingencies	67,783	67,783	-	\$ 67,783
Total charges to Appropriations	<u>622,739</u>	<u>622,739</u>	<u>558,607</u>	<u>64,132</u>
Budgetary Fund Balance, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,978</u>	<u>\$ 125,978</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 64
SPRING VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

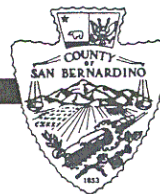
Internal Audits Section
Office of the Auditor/Controller-Recorder
October 22, 2003

**County of San Bernardino Special Districts
County Service Area No. 64
Spring Valley Lake**

Table of Contents

	Page
Independent Auditor's Report.....	1 - 2
Basic Financial Statements	
Fund Financial Statements	
<i>Proprietary Funds</i>	
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Fund Net Assets	4
Statement of Cash Flows	5 - 6
Notes to the Financial Statements	7-16

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 22, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 64 – SPRING VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Special District County Service Area No. 64 – Spring Valley Lake, for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of County Service Area No. 64 – Spring Valley Lake (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes assessing the accounting principles used and significant estimates

made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the CSA as of June 30, 2003, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The CSA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker

Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

LDW:BKR:MC:AME:dlp3

Date Report Distributed: _____

County of San Bernardino
County Service Area No. 64 – Spring Valley Lake
Balance Sheet
June 30, 2003

	Sewer (66S)	Water (660)	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,164,480	\$ 3,792,469	\$ 4,956,949
Receivables:			
Accounts	116,527	208,210	324,737
Taxes	1,570	16,817	18,387
Interest	6,133	20,863	26,996
Less allowance for uncollectible accounts	(870)	(17,651)	(18,521)
Total current assets	<u>1,287,840</u>	<u>4,020,708</u>	<u>5,308,548</u>
Noncurrent assets:			
Capital assets:			
Land	10,000	-	10,000
Construction in progress	-	226,369	226,369
Improvements to land	3,582,535	1,898,267	5,480,802
Structures and improvements	218,810	-	218,810
Equipment and vehicles	9,834	41,198	51,032
Utility plant in service	-	369,760	369,760
Less accumulated depreciation	(2,247,955)	(1,370,296)	(3,618,251)
Total noncurrent assets	<u>1,573,224</u>	<u>1,165,298</u>	<u>2,738,522</u>
Total assets	<u>2,861,064</u>	<u>5,186,006</u>	<u>8,047,070</u>
LIABILITIES			
Current liabilities:			
Accounts payable	15,802	25,721	41,523
Interest payable	33,911	-	33,911
Due to other governments	-	290	290
Bonds payable - current portion	90,000	-	90,000
Matured bonds payable	30,000	-	30,000
Total current liabilities	<u>169,713</u>	<u>26,011</u>	<u>195,724</u>
Total liabilities	<u>169,713</u>	<u>26,011</u>	<u>195,724</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,573,224	1,165,298	2,738,522
Unrestricted	1,118,127	3,983,845	5,101,972
Restricted	-	10,852	10,852
Total net assets	<u>2,691,351</u>	<u>5,159,995</u>	<u>7,851,346</u>
Total liabilities and net assets	<u>\$ 2,861,064</u>	<u>\$ 5,186,006</u>	<u>\$ 8,047,070</u>

The notes to the financial statement are an integral part of this statement

County of San Bernardino
County Service Area No. 64 – Spring Valley Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2003

	Sewer (66S)	Water (660)	Totals
OPERATING REVENUES			
Sales of water	\$ -	\$ 1,240,732	\$ 1,240,732
Charges for sanitation services	740,826	-	740,826
Fees	139,144	96,206	235,350
Other services	-	50,376	50,376
Total operating revenues	<u>879,970</u>	<u>1,387,314</u>	<u>2,267,284</u>
OPERATING EXPENSES			
Salaries and benefits	425,226	487,350	912,576
Professional services	176,188	91,031	267,219
Services and supplies	221,834	283,908	505,742
Utilities	9,635	191,986	201,621
Rents and leases	-	1,104	1,104
Other operating expenses	-	69,151	69,151
Depreciation	84,956	20,848	105,804
Total operating expenses	<u>917,839</u>	<u>1,145,378</u>	<u>2,063,217</u>
Operating income (loss)	<u>(37,869)</u>	<u>241,936</u>	<u>204,067</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	32,152	109,645	141,797
Property taxes	121,772	264,430	386,202
Other taxes	4,982	43,280	48,262
State aid	1,774	5,934	7,708
Other nonoperating revenues	20,727	46,956	67,683
Interest expense	(5,880)	-	(5,880)
Total nonoperating revenues (expenses)	<u>175,527</u>	<u>470,245</u>	<u>645,772</u>
Income before transfers	137,658	712,181	849,839
Transfers in	567,188	787,273	1,354,461
Transfers out	<u>(384,764)</u>	<u>(969,697)</u>	<u>(1,354,461)</u>
Change in net assets	320,082	529,757	849,839
Net assets, beginning	<u>2,371,269</u>	<u>4,630,238</u>	<u>7,001,507</u>
Net assets, ending	<u>\$ 2,691,351</u>	<u>\$ 5,159,995</u>	<u>\$ 7,851,346</u>

The notes to the financial statement are an integral part of this statement

County of San Bernardino
County Service Area No. 64 – Spring Valley Lake
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

**Enterprise
Fund
Sewer (66S)**

CASH FLOWS FROM OPERATING ACTIVITIES

Received from user charges	\$ 854,977
Payments to employees for services	(425,226)
Payments to suppliers for goods and services	(425,103)
Net cash provided (used) by operating activities	<u>4,648</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Taxes received	125,184
Grants received	1,774
Other receipts	22,366
Transfers in	388,593
Transfers out	(384,764)
Net cash provided (used) by non-capital financing activities	<u>153,153</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(90,000)
Interest paid on capital debt	(14,538)
Net cash (used) by capital and related financing activities	<u>(104,538)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	<u>36,260</u>
Net cash provided (used) by investing activities	<u>36,260</u>
Net increase in cash and cash equivalents	89,523

Cash and cash equivalents - beginning	<u>1,074,957</u>
Cash and cash equivalents - ending	<u>1,164,480</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (37,869)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	84,956
Changes in assets and liabilities:	
Accounts receivable, net	(24,123)
Bad debt reserve	(870)
Decrease in accounts payable	(17,446)
Net cash provided by operating activities	<u><u>\$ 4,648</u></u>

The notes to the financial statement are an integral part of this statement

County of San Bernardino
County Service Area No. 64 – Spring Valley Lake
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

	Enterprise Fund Water (660)
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 1,381,941
Payments to employees for services	(487,350)
Payments to suppliers for goods and services	(684,276)
Net cash provided (used) by operating activities	<u>210,315</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Taxes received	308,522
Grants received	5,934
Other receipts	46,956
Transfers in	787,273
Transfers out	(750,887)
Net cash provided (used) by non-capital financing activities	<u>397,798</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(135,064)
Net cash provided (used) by capital and related financing activities	<u>(135,064)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	120,192
Net cash provided (used) by investing activities	<u>120,192</u>
Net increase in cash and cash equivalents	593,241
Cash and cash equivalents - beginning	<u>3,199,228</u>
Cash and cash equivalents - ending	<u>3,792,469</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 241,936
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	20,848
Changes in assets and liabilities:	
Accounts receivable, net	(30,449)
Bad debt reserve	(17,651)
Due from other governments	42,727
Due to other governments	(28,132)
Accounts payable	(18,964)
Net cash provided by operating activities	<u><u>\$ 210,315</u></u>

The notes to the financial statement are an integral part of this statement

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area No. 64 – Spring Valley Lake (CSA) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on November 18, 1968 to provide sewer services (collection and disposal). The sewer operation currently serves approximately 3,740 equivalent dwelling units (EDUs). The water operation serves 3,358 water connections and maintains 6 wells and one booster station.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of CSA and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The CAS has elected not to follow subsequent private-sector guidance.

Proprietary funds are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The transaction of the CSA is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. *Operating* revenues and expenses are distinguished from *nonoperating* items. Operating revenues and expenses generally result from providing services and

County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA is charges to customers for sales of water and sewer charges.

Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Sewer" accounts for the sewer activities of the CSA.
The *enterprise fund* labeled "Water" accounts for the water activities of the CSA.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of "available" to 9 months. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise funds. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for Sewer (66S) for year ended June 30, 2003 was as follows:

	Balance at July 1, 2002	Additions	Disposals	Transfers & Adjustments	Balance at June 30, 2003
Capital assets not being depreciated:					
Land	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Total capital assets not being depreciated	10,000	-	-	-	10,000
Capital assets, being depreciated:					
Structures	-	218,810	-	-	218,810
Improvements	3,582,535	-	-	-	3,582,535
Equipment and vehicles	21,028	-	11,194	-	9,834
Total depreciable capital assets d	3,603,563	218,810	11,194	-	3,811,179
Less accumulated depreciation for:					
Structures and improvements	2,152,575	87,836	-	(1,635)	2,238,776
Equipment and vehicles	20,318	656	11,194	(601)	9,179
Total accumulated depreciation	2,172,893	88,492	11,194	(2,236)	2,247,955
Total capital assets– net	1,430,670	130,318	-	2,236	1,563,224
Total net capital assets	\$ 1,440,670	\$ 130,318	\$ -	\$ 2,236	\$ 1,573,224

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS – Continued

Capital asset activity for Water (660) for year ended June 30, 2003 was as follows:

	Balance at July 1, 2002	Additions	Disposals	Transfers & Adjustments	Balance at June 30, 2003
Capital assets not being depreciated:					
Construction in progress	\$ 309,781	\$ 135,398	\$ 218,810	\$ -	\$ 226,369
Total capital assets not being depreciated	309,781	135,398	218,810	-	226,369
Capital assets, being depreciated:					
Structures	369,760	-	-	(369,760)	-
Improvements	1,898,267	-	-	-	1,898,267
Utility plant in service	-	-	-	369,760	369,760
Equipments and vehicles	41,198	-	-	-	41,198
Total capital assets being depreciated	2,309,225	-	-	-	2,309,225
Less accumulated depreciation for:					
Structures and improvements	1,312,123	13,033	-	(42,303)	1,282,853
Utility plant in service	-	8,217	-	41,104	49,321
Equipment and vehicles	34,764	3,076	-	282	38,122
Total accumulated depreciation	1,346,887	24,326	-	(917)	1,370,296
Total capital assets, being depreciated – net	962,338	(24,326)	-	917	938,929
Total net capital assets	\$ 1,272,119	\$ 111,072	\$ 218,810	\$ 917	\$ 1,165,298

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS – *Continued*

At June 30, 2003, construction in progress for Water (660) represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Two 3 M Gallon Reservoirs	8,950,000	\$ 118,783	2004
Telemetry Project	642,045	75,493	2004
Lakerview Lift Station	1,045,000	25,000	2004
Well #7	1,540,000	7,093	2004
Total		\$ 226,369	

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: RETIREMENT PLAN – *Continued*

certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District incurred a total of \$3,569 in insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through

a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: SELF INSURANCE – Continued

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2002-2003	\$ 95,288	\$ 30,685	\$ (32,171)	\$ 93,802
2001-2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 6: CONTINGENCIES

The District receives grants from various Federal and State agencies that are subject to audit by agents of the granting authority. The purpose of this is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantors cannot be determined at this time. The CSA expects such amounts, if any, to be immaterial.

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following interfund transfers in and out for Sewer (66S) and Water (660):

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 7: TRANSFERS IN/OUT – *Continued*

Fund	Description	Purpose	Amount
EBR	Capital Replacement -Sewer	Reimburse	\$ 220,571
EBM	Operations-Sewer	Reimburse	(220,571)
EBM	Operations-Sewer	Reimburse	91,421
EBR	Capital Replacement-Sewer	Reimburse	(91,421)
EBM	Operations-Sewer	Reimburse	36,386
EBL	Project Fund-Water	Reimburse	(36,386)
EBU	Capital Expenditure Fund-Sewer	Reimburse	36,386
EBM	Operations-Sewer	Reimburse	(36,386)
ECB	Operations-Water	Reimburse	328,165
EIV	Capital Replacement-Water	Reimburse	(328,165)
EIV	Capital Replacement-Water	Reimburse	422,722
ECB	Operations-Water	Reimburse	(422,722)
Net Interfund Transfers			<u>\$ -</u>

NOTE 8: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts for Sewer (66S) and Water (660) were as follows:

	SEWER 660S <u>June 30, 2003</u>	WATER 660 <u>June 30, 2003</u>
Invested in Capital Assets, Net of Related Debt:		
Net Improvements to Land, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	<u>\$ 1,573,224</u>	<u>1,165,298</u>
Restricted	<u>-</u>	<u>10,852</u>
Unrestricted	<u>1,118,127</u>	<u>3,983,845</u>
Total net assets	<u>\$ 2,691,351</u>	<u>5,159,995</u>

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 9: BOND PAYABLE

In 1972, 1974 and 1990 the County's Board of Supervisors approved the issuance of Series A, Series B and Series D General Obligation Bonds, respectively, by the District. Series A bonds were paid off in the fiscal year ending June 30, 2002 and Series D bonds were paid off in fiscal year June 30, 2001. Series A bonds will be paid off in the fiscal year ending June 30, 2004. Authority for the issuance of the bonds is provided under the County Service Area Law of the California Government Code.

Annual debt service requirements to maturity for the Series B bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2004	<u>\$ 90,000</u>	<u>\$ 5,490</u>

Matured Bonds Payable in the amount of \$30,000 represents unclaimed bondholder payments for the Series A and D issuances.

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA No. 70
ZONE R – 40
UPPER NORTH BAY LAKE ARROWHEAD
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

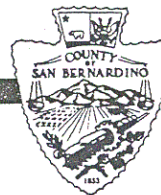
Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
September 17, 2003

**County of San Bernardino Special Districts
CSA 70 Zone R – 40 Upper North Bay Lake Arrowhead**

Table of Contents

	Page
Independent Auditor’s Report	1-2
 Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities.....	4
 Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet.....	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund.....	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	6
Notes to the Financial Statements	7 - 17
 Required Supplementary Information	
Budgetary Comparison Schedule Governmental Funds – Schedule One	18

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 17, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY SERVICE AREA NO. 70
 ZONE R – 40, UPPER NORTH BAY LAKE ARROWHEAD FOR THE
 FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the County Service Area No. 70, Zone R – 40 for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate information of the County of San Bernardino's County Service Area No. 70 Zone R – 40, (the CSA) a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit

includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the remaining aggregate fund information of the CSA as of June 30, 2003, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The CSA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K, Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)
Audit File (3)

Date Report Distributed: _____

**County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Statement of Net Assets
June 30, 2003**

ASSETS

Cash and cash equivalents	\$ 13,091
Interest receivable	113
Capital assets, net of accumulated depreciation	169,875
Construction in progress	60,095
Total Assets	<u>\$ 243,174</u>

LIABILITIES

Liabilities - current	8,417
Liabilities - noncurrent	42,083
Total Liabilities	<u>\$ 50,500</u>

NET ASSETS

Invested in capital assets, net of related debt	179,470
Unrestricted	13,204
Total Net Assets	<u>192,674</u>

Total Liabilities and net assets	<u>\$ 243,174</u>
----------------------------------	-------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Balance Sheet
June 30, 2003**

EXPENSES

Salaries and benefits	\$ 3,668
Services and supplies	5,375
Depreciation	<u>4,500</u>
Total Expenses	<u>13,543</u>

PROGRAM REVENUES

Special assessments	<u>16,247</u>
Total Program Revenue (Expense)	<u>2,704</u>

GENERAL REVENUES

Interest	<u>1,676</u>
Total General Revenues	<u>1,676</u>

Change in Net Assets	4,380
----------------------	-------

Net Assets - beginning	<u>188,294</u>
-------------------------------	----------------

Net Assets - ending	<u><u>\$ 192,674</u></u>
----------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Balance Sheet
June 30, 2003**

ASSETS

Cash and cash equivalents	\$ 13,091
Interest receivable	<u>113</u>
Total Assets	<u><u>\$ 13,204</u></u>

LIABILITIES AND FUND BALANCES

Fund Balances:	
Unreserved	<u>13,204</u>
Total Fund Balances	<u>13,204</u>
Total Liabilities and Fund Balances	13,204

Amounts reported for *governmental activities* in the statement of net assets are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(50,500)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>229,970</u>
Net assets of governmental fund	<u><u>\$ 192,674</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone R-40
Upper North Bay Lake Arrowhead
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Fiscal Year Ended June 30, 2003

REVENUES

Special assessments	\$ 16,247
Interest	1,676
Total Revenue	<u>17,923</u>

EXPENDITURES

Salaries	3,668
Services and supplies	5,375
Debt service - principle	8,009
Debt service - interest	1,491
Capital Outlay	<u>60,095</u>
Total Expenditures	<u>78,638</u>
Excess (deficiency) of revenues over expenditures	<u>(60,715)</u>

OTHER FINANCING SOURCES

Proceeds of long-term capital related debt	<u>60,000</u>
Total other financing sources	<u>60,000</u>
Net Change in Fund Balance	(715)

Fund balances - beginning

188,294

Fund balances - ending

\$ 187,579

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities.

Net Change in fund balances - total governmental funds (715)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not report depreciation. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	55,595
---	--------

Proceeds of the revolving loan and principle payments associated with the loan are not reported on the Government-wide Statement of Activities. This is the amount of remaining principle on the loan as of 6/30/03.

(50,500)

Change in net assets governmental activities

\$ 4,380

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 – Zone R-40 – Upper North Bay Lake Arrowhead (the CSA) – is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County of San Bernardino on March 20, 2001 with the active powers of maintaining and constructing road improvements. Currently, the governmental reporting entity provides road maintenance for a roadway on the Upper North Bay of Lake Arrowhead.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the CSA and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Government-wide and fund financial statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Measurement focus, basis of accounting, and financial statement presentation

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The government's primary operating fund is a special revenue fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides road maintenance services for the Upper North Bay of Lake Arrowhead.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Receivables and payables continued:

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectible when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets continued:

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Capital assets

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

CSA capital assets consist of six-tenths of a mile of a paved roadway and construction in progress to improve the road.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. The difference is the net effect of depreciation expense, the principle balance of the revolving loan, and the capital outlay for land improvement. Details of the difference are as follows:

Net change in fund balance	\$ (715)
Excess Capital Outlay over depreciation	55,595
Outstanding principle on loan	(50,500)
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	5,095
Change in net assets, Statement of Activities	<u>\$ 4,380</u>

**County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the CSA's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment and infrastructure) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the CSA as a whole, and their original costs are expensed annually over their useful lives. All governmental assets and depreciation are from the road maintenance activity.

Capital asset activity for governmental activities for the year ended June 30, 2003 follows:

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Governmental activities				
<i>Capital assets being depreciated:</i>				
Infrastructure-Roadway	\$180,000	\$ -	\$ -	\$180,000
Construction in Progress	-	60,095	-	60,095
Total capital assets being depreciated	180,000	60,095	-	240,095
 Less accumulated depreciation for:				
Infrastructure-Roadway	5,625	4,500	-	10,125
Total accumulated depreciation	5,625	4,500	-	10,125
 Total capital assets being depreciated, net	174,375	55,595	-	229,970
 Total net capital assets	\$174,375	\$55,595	\$ -	\$229,970

NOTE 4: LOANS PAYABLE

Notes Payable consists of a \$60,000 revolving loan from the County Service Area Revolving Loan Fund. The CSA entered into the loan agreement July 15, 2002. The loan will be repaid in 7 annual payments of \$9,500 with the first payment due July 2003. The rate of interest paid by the CSA is determined yearly by the rate of interest earned by the County's investment pool. During fiscal year ended June 30, 2003, the average rate of interest earned by the pool was 5.37%.

**County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: RETIREMENT PLAN

Plan description

The San Bernardino County Employees Retirement Association ("SBCERA") is a cost-sharing multiple-employer defined benefit pension plan ("Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino which includes the CSA, the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District
South Coast Air Quality Management District
Local Area Formation Commission

The CSA and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the CSA did not pay into to the plan. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6: SELF INSURANCE

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance cost or annual premiums for the year ended June 30, 2003

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties ("CSAC") Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6: SELF INSURANCE (Continued)

amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

NOTE 7: NET ASSETS

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets, as well as, any premium, discount paid on debt reduce the category balance.
- *Restricted Net Assets* - This category represents external restrictions imposed by creditors, grantors, contributors, other government's laws or regulations, or restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grant agreements that restrict grants to specific purposes and cash set aside for debt service payments.
- *Unrestricted Net Assets* - This category represents net assets of the County that are not invested in capital assets or restricted to specific purposes by agreements with external entities or by law.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced, or eliminated by similar actions.

County of San Bernardino
County Service Area No. 70, Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7: NET ASSETS (Continued)

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

**Invested in Capital Assets, Net of
Related Debt:**

Net roadways	\$ 229,970
Less: Loans Payable on roadways	50,500
	<hr/> 179,470
Unrestricted	13,204
	<hr/>
Total Net Assets	<hr/> \$ 192,674 <hr/>

County of San Bernardino
County Service Area No. 70, Zone \$-40 Upper North Bay Lake Arrowhead
Budgetary Comparison Schedule-Special Revenue Fund (RGW)
For the Fiscal Year Ended June 30, 2003

SCHEDULE ONE

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Favorable (Unfavorable)
Budgetary fund balance				
July 1, 2002	\$ -	\$ 13,919	\$ 13,919	\$ -
Resources (inflows):				
Special assessments	18,000	18,000	16,247	(1,753)
Use of money and property	-	-	1,676	1,676
Other	-	70,000	60,000	(10,000)
Amounts available for appropriation	<u>\$ 18,000</u>	<u>\$ 101,919</u>	<u>\$ 91,842</u>	<u>\$ (10,077)</u>
Charges to appropriations (outflows)				
Salaries and Benefits	\$ -	\$ 3,668	\$ 3,668	\$ -
Services and supplies	18,000	5,606	5,375	231
Other	-	9,500	9,500	-
Improvements to Land	-	70,000	60,095	9,905
Total charges to Appropriations	<u>18,000</u>	<u>88,774</u>	<u>78,638</u>	<u>10,136</u>
Budgetary Fund Balance, June 30, 2003	<u>\$ -</u>	<u>\$ 13,145</u>	<u>\$ 13,204</u>	<u>\$ 59</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 79
GREEN VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared By:

Internal Audits Section
Office of the Auditor/Controller-Recorder
January 14, 2004

**County of San Bernardino Special Districts
County Service Area No. 79
Green Valley Lake**

Table of Contents

	Page
Independent Auditor's Report.....	1 - 2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
<i>Proprietary Funds</i>	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets	9
Statement of Cash Flows	10
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	11
Notes to the Financial Statements	12 - 24
Required Supplementary Information	
Budgetary Comparison Schedule – Special Revenue Funds.....	25 - 26

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

January 14, 2004

Tom Sutton, Interim Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 79 – GREEN VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 79 – Green Valley Lake for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino's Special District County Service Area No. 79 – Green Valley Lake (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining,

on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the CSA, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on pages 25 – 26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The CSA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker

Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly – Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

LDW:BKR:DA:dlp1

Date Report Distributed: _____

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 92,730	\$ 516,988	\$ 609,718
Accounts receivable (net)	-	96,703	96,703
Taxes receivable	5,666	688	6,354
Interest receivable	691	2,426	3,117
Total current assets	99,087	616,805	715,892
Noncurrent Assets:			
Capital assets:			
Improvements to land	59,388	250,022	309,410
Infrastructure	131,675	-	131,675
Construction in progress	-	9,994	9,994
Utility plant in service	-	4,647,780	4,647,780
Structures and improvements	128,091	-	128,091
Equipment and vehicles	438,572	74,596	513,168
Less accumulated depreciation	(308,424)	(2,590,640)	(2,899,064)
Total noncurrent assets	449,302	2,391,752	2,841,054
Total assets	\$ 548,389	\$ 3,008,557	\$ 3,556,946
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	\$ 551	\$ -	\$ 551
Accounts payable	-	32,504	32,504
Accounts payable - encumbered	-	17,761	17,761
Due to other funds	403	-	403
Total current liabilities	954	50,265	51,219
Total liabilities	954	50,265	51,219
NET ASSETS			
Invested in capital assets	449,302	2,391,752	2,841,054
Unrestricted	98,133	566,540	664,673
Total net assets	547,435	2,958,292	3,505,727
Total liabilities and net assets	\$ 548,389	\$ 3,008,557	\$ 3,556,946

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 39,788	\$ 281,554	\$ 321,342
Services and supplies	52,013	142,844	194,857
Professional services	9,778	143,370	153,148
Utilities	4,039	22,722	26,761
Rents and leases	70	-	70
Filtration project	-	44,624	44,624
Operating transfers out	45,612	-	45,612
Depreciation	34,585	115,590	150,175
Total expenses	<u>185,885</u>	<u>750,704</u>	<u>936,589</u>
PROGRAM REVENUES			
Charges for services	-	577,698	577,698
Other services	-	1,659	1,659
Total program revenues	<u>-</u>	<u>579,357</u>	<u>579,357</u>
Net program (expense) revenue	<u>(185,885)</u>	<u>(171,347)</u>	<u>(357,232)</u>
GENERAL REVENUES			
Property taxes	102,183	800	102,983
Special assessments	6,299	27,525	33,824
Interest	6,586	13,597	20,183
Other revenues	235,000	9,770	244,770
Total general revenues	<u>350,068</u>	<u>51,692</u>	<u>401,760</u>
Change in net assets	164,183	(119,655)	44,528
Net assets - beginning (restated)	<u>383,252</u>	<u>3,077,947</u>	<u>3,461,199</u>
Net assets - ending	<u><u>\$ 547,435</u></u>	<u><u>\$ 2,958,292</u></u>	<u><u>\$ 3,505,727</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Balance Sheet
June 30, 2003

	Fire (SOV)	Road (CBR, RCP)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 71,416	\$ 21,314	\$ 92,730
Interest receivable	592	99	691
Taxes receivable	5,666	-	5,666
Total assets	<u>\$ 77,674</u>	<u>\$ 21,413</u>	<u>\$ 99,087</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 551	\$ -	\$ 551
Due to other funds	212	191	403
Total liabilities	<u>763</u>	<u>191</u>	<u>954</u>
Fund balances:			
Unreserved	76,911	21,222	98,133
Total fund balances	<u>76,911</u>	<u>21,222</u>	<u>98,133</u>
Total liabilities and fund balances	<u>\$ 77,674</u>	<u>\$ 21,413</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets and long-term liabilities used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>449,302</u>
Net assets of governmental activities	<u>\$ 547,435</u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	Fire (SOV)	Road (CBR, RCP)	Total Governmental Funds
REVENUES			
Property taxes	\$ 102,136	\$ 47	\$ 102,183
Special assessments	-	6,299	6,299
Interest	6,046	540	6,586
Other revenues	235,000	-	235,000
Total revenues	343,182	6,886	350,068
EXPENDITURES			
Salaries and benefits	37,227	2,561	39,788
Professional services	9,294	484	9,778
Services and supplies	49,218	2,796	52,014
Utilities	4,039	-	4,039
Rents and leases	70	-	70
Capital outlays	227,327	-	227,327
Total expenditures	327,175	5,841	333,016
Excess of revenues over (under) expenditures	16,007	1,045	17,052
OTHER FINANCING SOURCES (USES)			
Transfers out	(45,612)	-	(45,612)
Total other financing sources (uses)	(45,612)	-	(45,612)
Net change in fund balances	(29,605)	1,045	(28,560)
Fund balances - beginning	106,516	20,177	126,693
Fund balances - ending	\$ 76,911	\$ 21,222	\$ 98,133

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Fiscal Ended June 30, 2003**

Net change in fund balances - total governmental funds	\$	(28,560)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

192,743

Change in net assets of governmental activities	\$	<u><u>164,183</u></u>
---	----	-----------------------

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Enterprise Fund
	Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 516,988
Accounts receivable (net)	96,703
Taxes receivable	688
Interest receivable	2,426
Total current assets	<u>616,805</u>
Noncurrent assets:	
Capital assets:	
Construction in progress	9,994
Improvements to land	250,022
Utility plant in service	4,647,780
Equipment and vehicles	74,596
Less accumulated depreciation	<u>(2,590,640)</u>
Total noncurrent assets	<u>2,391,752</u>
Total Assets	<u><u>\$ 3,008,557</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 32,504
Accounts payable - encumbered	17,761
Total current liabilities	<u>50,265</u>
Total liabilities	<u>50,265</u>
NET ASSETS	
Invested in capital assets	2,391,752
Unrestricted	566,540
Total net assets	<u>2,958,292</u>
Total liabilities and net assets	<u><u>\$ 3,008,557</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Enterprise Fund
	Sewer
OPERATING REVENUES	
Charges for services	\$ 577,698
Other services	1,659
Total operating revenues	<u>579,357</u>
OPERATING EXPENSES	
Salaries and benefits	281,554
Professional services	143,370
Services and supplies	142,844
Utilities	22,722
Filtration project	44,624
Depreciation	115,590
Total operating expenses	<u>750,704</u>
Operating income (loss)	<u>(171,347)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	13,597
Property taxes	800
Special assessments	27,525
Other nonoperating revenues	9,770
Total nonoperating revenues (expenses)	<u>51,692</u>
Change in net assets	(119,655)
Net assets - beginning (restated)	<u>3,077,947</u>
Net assets - ending	<u><u>\$ 2,958,292</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Enterprise Fund
	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 581,643
Payments to employees for services	(281,554)
Payments to suppliers for goods and services	(316,127)
Other payments	<u>(44,624)</u>
Net cash provided (used) by operating activities	<u>(60,662)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	34,746
Other receipts	<u>4,275</u>
Net cash provided (used) by noncapital financing activities	<u>39,021</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
NONE	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>16,217</u>
Net cash provided (used) by investing activities	<u>16,217</u>
Net increase (decrease) in cash and cash equivalents	(5,424)
Cash and cash equivalents - beginning	<u>522,412</u>
Cash and cash equivalents - ending	<u><u>\$ 516,988</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (171,347)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	115,590
Change in assets and liabilities:	
Decrease in receivables, net	2,286
Decrease in accounts and other payables	<u>(7,191)</u>
Net cash provided (used) by operating activities	<u><u>\$ (60,662)</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Agency Fund
	1915 Bond Act
ASSETS	
Cash and cash equivalents	\$ 497,291
Total assets	\$ 497,291
LIABILITIES	
Due to bondholders	\$ 497,291
Total liabilities	\$ 497,291

The notes to the financial statements are an integral part of this statement

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area No. 79 – Green Valley Lake (CSA) – is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter (“County”). The County was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County of San Bernardino on September 7, 1971 with the active powers of fire (inspection, suppression, protection, first aid, and rescue), sewer (collection and disposal), and water and road (maintenance and improvements). Currently, the governmental reporting entity consists of fire protection, emergency medical services, and an enterprise fund (sewer) for the community of Green Valley Lake. The CSA also provides maintenance for approximately one mile of paved road in “The Meadow” area of Green Valley Lake.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County’s financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the CSA and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

The government reports the following major governmental funds:

The *special revenue fund* labeled “Fire” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The special revenue and capital project funds labeled “Road” provides road maintenance and repairs to the unpaved road in “The Meadow” area of Green Valley Lake.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary fund:

The enterprise fund labeled “Sewer” account for the activities of the CSA. The CSA operates the sewer under the administration of Water/Sewer.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual of accounting is used for the agency

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$192,743 difference are as follows:

Capital outlay	\$ 227,327
Depreciation expense	<u>34,584</u>
Net adjustment to decrease <i>net change in fund balances</i> – <i>total governmental funds</i> to arrive at <i>changes in net</i> <i>assets of governmental activities</i>	<u><u>\$ 192,743</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	Governmental Activities	Business-type Activities
Invested in Capital Assets, Net of Related Debt: June 30, 2003		
Net Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 449,302	\$ 2,391,752
Unrestricted	98,133	566,540
Total Net Assets	\$ 547,435	\$ 2,958,292

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the CSA as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2003 follows.

	Beg Balance (as restated)	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, being depreciated				
Improvements to land	\$ 59,388	\$ -	\$ -	\$ 59,388
Structures and improvements	128,091	-	-	128,091
Infrastructure	131,675	-	-	131,675
Vehicles	220,897	227,327	(15,100)	433,124
Equipment	5,448	-	-	5,448
Total capital assets, being depreciated	<u>545,499</u>	<u>227,327</u>	<u>(15,100)</u>	<u>757,726</u>
Less accumulated depreciation for:				
Improvements to land	10,475	1,320	-	11,795
Structures and improvements	38,596	2,846	-	41,442
Infrastructure	32,919	3,291	-	36,210
Vehicles	201,646	26,983	(15,100)	213,529
Equipment	5,448	-	-	5,448
Total accumulated depreciation	<u>289,084</u>	<u>34,440</u>	<u>(15,100)</u>	<u>308,424</u>
Total capital assets, being depreciated, net	<u>256,415</u>	<u>192,887</u>	<u>-</u>	<u>449,302</u>
Governmental activities capital assets, net	<u>\$ 256,415</u>	<u>\$ 192,887</u>	<u>\$ -</u>	<u>\$ 449,302</u>
Business-type activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 260,016	\$ -	\$ (250,022)	\$ 9,994
Total capital assets, not being depreciated	<u>260,016</u>	<u>-</u>	<u>(250,022)</u>	<u>9,994</u>
Capital assets, being depreciated				
Utility plant in service	4,488,730	-	-	4,488,730
Structures & improvements	159,050	-	-	159,050
Improvements to land	-	250,022	-	250,022
Vehicles	23,324	-	-	23,324
Equipment	51,272	-	-	51,272
Total capital assets, being depreciated	<u>4,722,376</u>	<u>250,022</u>	<u>-</u>	<u>4,972,398</u>
Less accumulated depreciation for:				
Utility plant in service	2,335,187	99,750	-	2,434,937
Structures & improvements	82,764	3,534	-	86,298
Improvements to land	-	5,556	-	5,556
Vehicles	20,734	2,591	-	23,325
Equipment	36,365	4,159	-	40,524
Total accumulated depreciation	<u>2,475,050</u>	<u>115,590</u>	<u>-</u>	<u>2,590,640</u>
Total capital assets, being depreciated, net	<u>2,247,326</u>	<u>134,432</u>	<u>-</u>	<u>2,381,758</u>
Business-type activities capital assets, net	<u>\$ 2,507,342</u>	<u>\$ 134,432</u>	<u>\$ (250,022)</u>	<u>\$ 2,391,752</u>

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: CAPITAL ASSETS - *Continued*

At June 30, 2003, construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Complex Facility Plan	\$ 10,000	\$ 9,994	2004
Total		<u><u>\$ 9,994</u></u>	

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (“SBCERA”) is a cost-sharing multiple-employer defined benefit pension plan (“Plan”) operating under the California County Employees Retirement Act of 1937 (“1937 Act”). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the “Participating Members.” The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: RETIREMENT PLAN - *Continued*

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the District pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino ("County"). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6: INSURANCE – Continued

malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$41,124,812 at June 30, 2003.

The total County claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2002 and 2003 were (in thousands):

Fiscal Year		Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2002-03	\$	\$ 95,288	\$ 30,685	\$ (32,171)	\$ 93,802
2001-02		\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following interfund transfers in and out:

Fund	Description	Purpose	Amount
SKK	To OP to Purchase Engine	To Operations to purchase fire engine	\$ 95,000
SKK	To OP to Purchase Engine	To Operations to purchase fire engine	140,000
SOV	From Capital Reserve	Transfer from reserves to OP for fire engine purchase	(235,000)
EFS	To EFP 345 - Operations Fund	Transfer #2 - FY 2003 Budgeted O & M Transfer	119,539
EFP	Frm EFS 345 - Cap Replace Fund	For Capital Replacement Fund	(119,539)
EFP	To EFS 485 - Cap Replace Fund	Transfer #2 - FY 2003 Budgeted O & M Transfer	98,542
EFS	From - EFP 485 - Operation Fund	For Capital Replacement Fund	(98,542)
EFS	To EFP 485 Operations	Transfer #4 - FY 2003 Budgeted O & M Transfer	98,542
EFP	From EFS 485 - Capital Replacement	For Capital Replacement Fund	(98,542)
CDF	Operating Transfer Out	To Close Out Construction in Progress	250,022
EFP	Operating Transfer In	To Record Asset From CDF Construction in Progress	(250,022)
Net Interfund Transfers			<u>\$ -</u>

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 9: SPECIAL ASSESSMENT ACCOUNTING – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 (“bonds”) to finance certain sewer improvements. The District reports 1915 Act Bonds according to the provisions of the Government Accounting Standards Board’s Statement No. 6. The bonds are not a direct liability of the District and therefore are not reported on the District’s financial statements. The portion of the Utility Plant in Service financed by Special Assessments amounting to \$497,291, is reported as Invested in Capital Assets, Net of Related Debt in the Enterprise Fund. The liability for each Assessment District at June 30, 2003 is zero.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

**NOTE 10: WASTEWATER TRANSPORTATION, TREATMENT AND DISPOSAL
AGREEMENT WITH RUNNING SPRINGS WATER DISTRICT**

The CSA entered into a forty (40) year agreement with the Running Springs County Water District ("District") on May 9, 1977. The agreement provides transportation of wastewater from the CSA to a connecting point within the District wastewater system and to provide proportionate joint financing for enlargement of the District system to treat the projected flows from the CSA and the District. The District will provide final transportation, treatment and disposal of these wastewater flows and bill the CSA for their proportionate share of costs in accordance with the terms of the agreement.

As compensation for transportation, treatment and disposal of their wastewater, the CSA shall pay a proportionate share of the operation and maintenance expense of the jointly used facilities. The payment will be made based on a three-month accounting period commencing on January 1st, April 1st, July 1st, or October 1st. Additionally, an amount equal to fifteen percent (15%) of the CSA's proportionate share of operations and maintenance expenses will be paid to the District to cover overhead and indirect expenses.

Expansion or modifications or replacement of joint use facilities will be assessed to the CSA in proportion to the ratio of assessed valuation of the District, the CSA and Arrowbear at the time that the projects are approved by the District. These costs shall be included in a written notification to the CSA no later than March 1st of each year. The CSA is currently paying their proportionate share (21.08%) on a filtration project, which was financed over fifteen years beginning on September 21, 2002. The loan to the District will mature on March 21, 2017.

Any net income the District may receive from the wastewater or by-products of treatment shall be shared by the District, Arrowbear and the CSA on a proportionate share basis.

The CSA has an option to renew the agreement for an additional forty years if they exercise the option to renew at least three years prior to the expiration date of the agreement by sending a written notice to the District. The current agreement will expire on May 9, 2017.

The CSA incurred the following costs in FY 02/03 based on the agreement:

Wastewater transportation, treatment & disposal	\$	136,824
Expansion or modification or replacement (Filtration project)		44,624
Total Costs	\$	<u>181,448</u>

Required Supplementary Information
County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

	Fire (SOV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 95,209	\$ 96,972	\$ 101,551	\$ 4,579
Use of money and property	5,000	1,200	6,046	4,846
Other taxes	-	-	2,193	2,193
Operating transfer in	-	235,000	233,392	(1,608)
Total Revenues	100,209	333,172	343,182	10,010
EXPENDITURES:				
Salaries and benefits	39,009	30,836	37,227	(6,391)
Services and supplies	78,301	58,582	62,621	(4,039)
Vehicles	-	235,000	227,327	7,673
Central computer	874	1,311	-	1,311
Reserves and contingencies	66,133	46,147	-	46,147
Total Expenditures	184,317	371,876	327,175	44,701
OTHER FINANCING SOURCES (USES)				
Transfers Out	(40,000)	(67,612)	(45,612)	22,000
Total Other Financing Sources (Uses)	(40,000)	(67,612)	(45,612)	22,000
Net Change in Fund Balances	\$ (124,108)	\$ (106,316)	(29,605)	\$ 76,711
Fund Balances - beginning			106,516	
Fund Balances - ending			\$ 76,911	

Required Supplementary Information
County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

	Special Revenue Fund			
	Road (RCP)			
				Variance with Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
REVENUES:				
Property taxes	\$ -	\$ -	\$ 6,346	\$ 6,346
Use of money and property	500		540	540
Current services	6,600	6,600	-	(6,600)
Total Revenues	7,100	6,600	6,886	286
EXPENDITURES:				
Salaries and benefits	2,369	2,561	2,561	-
Services and supplies	12,944	13,178	3,280	9,898
Reserves and contingencies	8,689	9,462	-	9,462
Total Expenditures	24,002	25,201	5,841	19,360
OTHER FINANCING SOURCES (USES)				
NONE				
Net Change in Fund Balances	\$ (16,902)	\$ (18,601)	1,045	\$ 19,646
Fund Balances - beginning			20,177	
Fund Balances - ending			\$ 21,222	

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
CENTRAL VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared By:

Internal Audits Section
Office of the Auditor/Controller-Recorder
December 5, 2003

**County of San Bernardino
Central Valley Fire Protection District**

Table of Contents

	Page
Independent Auditor's Report	1 – 2
 Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
 Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to the Financial Statements	8 – 18
 Required Supplementary Information	
Budgetary Comparison Schedule – Special Revenue Funds	19

Independent Auditor's Report

December 5, 2003

Peter Hills, Fire Chief/Fire Warden

Office of Special Districts

157 West Fifth Street

San Bernardino, CA 92415 – 0450

**SUBJECT: AUDIT OF CENTRAL VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Central Valley Fire Protection District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of the Central Valley Fire Protection District (the District), a component unit of the County of San Bernardino, California, as of June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities and the remaining aggregate fund information of the District as of June 30, 2003 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)
Date Report Distributed: _____

LDW:BKR:spr.2

**County of San Bernardino
Central Valley Fire Protection District
Statement of Net Assets
June 30, 2003**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,932,520
Taxes receivable	546,480
Interest receivable	7,886
Due from other governments	<u>879,645</u>
Total current assets	<u>4,366,531</u>
Noncurrent assets:	
Capital assets:	
Land	31,054
Improvements to land	54,425
Structures	940,547
Vehicles	4,038,986
Equipment	338,505
Construction in progress	105,085
Less accumulated depreciation	<u>(3,342,785)</u>
Total non current assets	<u>2,165,817</u>
Total assets	<u><u>\$ 6,532,348</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits	\$ 537,009
Due to other governments	<u>14,065</u>
Total current liabilities	<u>551,074</u>
Noncurrent liabilities:	
Employee compensated absences	<u>1,015,867</u>
Total noncurrent liabilities	<u>1,015,867</u>
Total liabilities	<u><u>1,566,941</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	2,165,817
Unrestricted	<u>2,799,590</u>
Total net assets	<u>4,965,407</u>
Total liabilities and net assets	<u><u>\$ 6,532,348</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 11,044,957
Services and supplies	1,016,288
Professional services	674,674
Rents and leases	10,606
Utilities	100,233
Operating transfer out	1,450,000
Depreciation	429,796
Total expenses	<u>14,726,554</u>
PROGRAM REVENUES	
Government aid and grants	283,793
Charges for services	2,729,081
Operating transfer in	1,200,000
Total program revenues	<u>4,212,874</u>
Net program (expense) revenue	<u>(10,513,680)</u>
GENERAL REVENUES	
Property taxes	10,376,065
Other taxes	467,020
Interest	22,003
Rents and concessions	6,600
Other	620,182
Total general revenues	<u>11,491,870</u>
Change in net assets	978,190
Net assets - beginning	<u>3,987,217</u>
Net assets - ending	<u><u>\$ 4,965,407</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Balance Sheet
June 30, 2003**

	Governmental Activities <u>Fire Protection</u>
ASSETS	
Cash and cash equivalents	\$ 2,932,520
Taxes receivable	546,480
Interest receivable	7,886
Due from other governments	<u>879,645</u>
Total assets	<u><u>\$ 4,366,531</u></u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits	\$ 537,009
Due to other governments	<u>14,065</u>
Total liabilities	<u><u>551,074</u></u>
 Fund Balances:	
Reserved for Encumbrances	421,981
Unreserved	<u>3,393,476</u>
Total fund balances	<u><u>3,815,457</u></u>
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
 Capital assets and long-term liabilities used in governmental activities are not financial resources and, therefore, are not reported in the funds.	 2,165,817
 Long term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.	 <u>(1,015,867)</u>
Net assets of governmental activities (page 3)	<u><u>\$ 4,965,407</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2003**

	Total Governmental Funds
REVENUES	
Property taxes	\$ 10,376,065
Other taxes	467,020
Interest	22,003
Governmental aid	283,793
Charges for services	2,729,081
Rents and concessions	6,600
Other	620,182
Total revenues	<u>14,504,744</u>
 EXPENDITURES	
Salaries and benefits	10,956,406
Services and supplies	1,016,288
Professional services	674,674
Rents and leases	10,606
Utilities	100,233
Capital outlay	231,613
Total expenditures	<u>12,989,820</u>
Excess of revenues over (under) expenditures	<u>1,514,924</u>
 OTHER FINANCING SOURCES (USES)	
Transfers in	1,200,000
Transfers out	(1,450,000)
Total other financing sources (uses)	<u>(250,000)</u>
Net change in fund balances	1,264,924
Fund Balances - beginning	<u>3,987,217</u>
Fund Balances - ending	<u><u>\$ 5,252,141</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances - total governmental funds (page 6)	\$ 1,264,924
---	--------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(198,183)
---	-----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Increase in Employee Compensated Absences	<u>(88,551)</u>
---	-----------------

Changes in net assets of governmental activities (page 4)	<u><u>\$ 978,190</u></u>
--	--------------------------

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Central Valley Fire District (the District) is a fire protection district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the county). The County was established in 1852 as a legal subdivision of the State of California. The District's powers are exercised through the Board of Supervisors (the "Board"), which is the governing body for the County.

The District was established by an act of the Board on March 11, 1974 with active powers of fire protection and emergency medical services for the communities of Fontana, Muscoy, and Bloomington.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Government-wide and fund financial statements

that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Measurement focus, basis of accounting, and financial statement presentation

The District utilizes special revenue funds. The funds account for all financial resources of the general government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Currently the District does not have any proprietary or fiduciary fund types.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$ 100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures and Improvements	5 - 45
Equipment and vehicles	6 - 15

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 927,316	\$ 450,431	(\$ 361,880)	\$ 1,015,867

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 198,183 difference are as follows:

Capital Outlay	\$ 231,613
Depreciation Expense	(429,796)
	<hr/>
Net adjustment to decrease <i>net change in fund Balances - total governmental funds</i> to arrive at <i>changes in net assets governmental activities</i>	\$ (198,183)
	<hr/> <hr/>

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub –object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of The District as a whole, and their original costs are expensed annually over their estimated useful lives. Capital assets activity for governmental activities for the year ended June 30, 2003 follows.

	Balance July 1, 2002	Additions	Disposals	Balance June 30, 2002
Governmental Activities				
Capital assets, non-depreciable:				
Land	\$ 31,054	\$ -	\$ -	\$ 31,054
Construction in progress	-	105,085	-	105,085
Total assets, non-depreciable	31,054	\$ 105,085	-	136,139
Capital assets depreciable:				
Buildings	940,547	-	-	940,547
Improvements to Land	54,425	-	-	54,425
Vehicles	4,066,354	31,298	58,666	4,038,986
Equipment	257,412	95,230	14,137	338,505
Total assets-depreciable	5,318,738	126,528	72,803	5,372,463
Less accumulated depreciation for:				
Buildings	(382,947)	(20,859)	-	(403,806)
Improvements to Land	(45,623)	(336)	-	(45,959)
Vehicles	(2,424,717)	(387,302)	58,666	(2,753,353)
Equipment	(126,777)	(21,299)	8,409	(139,667)
Total accumulated depreciation	(2,980,064)	(429,796)	67,075	(3,342,785)
Total capital assets, depreciable, net	2,338,674	(303,268)	5,728	2,029,678
Governmental activities capital assets, net	\$ 2,369,728	\$ (198,183)	\$ 5,728	\$ 2,165,817

NOTE 4: NET ASSETS

The government-wide financial statements utilize a net assets presentation. Net assets represent the difference between assets and liabilities. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: NET ASSETS (*Continued*)

acquisition, construction, or improvement of these assets, as well as, any premium, discount paid on debt reduce the category balance.

- *Restricted Net Assets* - This category represents external restrictions imposed by creditors, grantors, contributors, other government's laws or regulations, or restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grant agreements that restrict grants to specific purposes and cash set aside for debt service payments.
- *Unrestricted Net Assets* - This category represents net assets of the County that are not invested in capital assets or restricted to specific purposes by agreements with external entities or by law.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced, or eliminated by similar actions.

At June 30, 2003, the District's net assets were as follows:

	<u>Governmental Activities</u>
Invested in capital assets, net of related debt: Net: land, improvements to land, infrastructure, construction in progress, utility plant in service, structures and improvements, and equipment and vehicles	 \$ 2,165,817
Unrestricted	<u>2,799,590</u>
Total net assets	<u><u>\$ 4,965,407</u></u>

NOTE 5: RETIREMENT PLAN

Plan description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: RETIREMENT PLAN - *Continued*

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 7: SELF INSURANCE

The District participates in a Public Entity Risk Pool Sponsored by the County of San Bernardino (County). The District did not incur any insurance costs or annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$ 250,000 per occurrence. Excess insurance coverage up to \$ 30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority "EIA" Liability Program II.

Workers' compensation claims are self insured up to \$ 1 million per occurrence and covered by an independent carrier for the balance up to \$ 2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self insured on an occurrence basis up to \$ 25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Division except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Division are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for reserves and payment of claims. The County's investment in the agreements totaled \$ 41,124,812 at June 30, 2003.

The claims liability of \$ 93,802,000 reported at June 30, 2003, is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 7: SELF INSURANCE (Continued)

Changes in the claims liability amount in fiscal years 2002 and 2003 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SQY	Transfer to project fund CLH	\$ 1,200,000
SQY	Transfer to SKX fund for Fire Tower	250,000
CLH	Transfer from SQY for capital projects	(1,200,000)
	Total	<u>\$ 250,000</u>

**County of San Bernardino
Central Valley Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2003**

Fire Protection District	Budgeted Amounts		Actual Amounts	Final Budget
	Original	Final	Budgetary Basis	Favorable (Unfavorable)
Budgetary fund balance				
July 1, 2002	\$ 2,572,159	\$ 2,531,548	\$ 2,531,548	\$ -
Resources (inflows)				
Property Taxes	9,568,307	10,503,415	10,843,085	339,670
Use of Money and Property	-	65,000	22,003	(42,997)
Other Governmental Aid	-	-	283,793	283,793
Charges for services	2,780,552	2,832,103	2,729,081	(103,022)
Other Revenue	416,060	581,312	626,782	45,470
Transfer from other funds	-	-	1,200,000	1,200,000
Amounts available for appropriation	<u>15,337,078</u>	<u>13,981,830</u>	<u>15,704,744</u>	<u>1,722,914</u>
Charges to appropriations (outflows)				
Salaries and Benefits	10,179,900	10,458,330	10,956,406	(498,076)
Services and Supplies	2,389,288	2,320,479	1,801,801	518,678
Capital Outlay	662,000	555,000	231,613	323,387
Reserves and Contingencies	901,089	1,564,569	-	1,564,569
Transfer to other funds	<u>1,204,801</u>	<u>1,615,000</u>	<u>1,450,000</u>	<u>165,000</u>
Total charges to appropriations	<u>15,337,078</u>	<u>16,513,378</u>	<u>14,439,820</u>	<u>2,073,558</u>
Budgetary Fund Balance, June 30, 2003	<u>\$ 2,572,159</u>	<u>\$ 2,531,548</u>	<u>\$ 3,796,472</u>	<u>\$ 1,264,924</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
MONTE VISTA FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 16, 2003

**County of San Bernardino Special Districts
Monte Vista Fire Protection District
Table of Contents**

	Page
Independent Auditor's Report	1 - 2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	5
Statement of Revenues, Expenditures, and Changes in Fund Balance	6
Notes to Financial Statements	7-12
Required Supplementary Information	
Budgetary Comparison Schedule -Special Revenue Funds Notes	13

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 16, 2003

Peter Hills, Fire Chief/Fire Warden
San Bernardino County Fire Department
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF MONTE VISTA FIRE PROTECTION DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Monte Vista Fire Protection District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Monte Vista Fire Protection District (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities of the District as of June 30, 2003 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)
Audit Report Distributed: _____

LDW:BKR:MAB:dlp2

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Net Assets
June 30, 2003**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 155,445
Taxes receivable	14,083
Interest receivable	<u>773</u>
Total current assets	<u><u>170,301</u></u>
 LIABILITIES	
Current liabilities:	
Due to other governments	<u>\$ 98,584</u>
Total current liabilities	98,584
 NET ASSETS	
Unrestricted	<u>71,717</u>
Total net assets	<u>71,717</u>
Total liabilities and net assets	<u><u>\$ 170,301</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 236,387
Services and supplies	<u>6,916</u>
Total expenses	<u>243,303</u>
GENERAL REVENUES	
Property taxes	254,056
Interest	3,903
Other Revenue	<u>377</u>
Total general revenues	<u>258,336</u>
Change in net assets	15,033
Net assets - beginning	<u>56,684</u>
Net assets - ending	<u><u>\$ 71,717</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Balance Sheet
June 30, 2003**

	Fire (SRP)
ASSETS	
Cash and cash equivalents	\$ 155,445
Interest receivable	773
Taxes receivable	<u>14,083</u>
Total assets	<u><u>\$ 170,301</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other governments	<u>\$ 98,584</u>
Total liabilities	98,584
Fund balances:	
Unreserved	<u>71,717</u>
Total fund balances	<u>71,717</u>
Total liabilities and fund balances	<u><u>\$ 170,301</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2003**

	Governmental Funds
REVENUES	
Property taxes	\$ 254,056
Interest	3,903
Other Revenue	<u>377</u>
Total revenues	<u>258,336</u>
EXPENDITURES	
Professional services	236,387
Services and supplies	<u>6,916</u>
Total expenditures	<u>243,303</u>
Excess of revenues over (under) expenditures	<u>15,033</u>
Net change in fund balances	15,033
Fund balances - beginning	<u>56,684</u>
Fund balances - ending	<u><u>\$ 71,717</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: THE FINANCIAL REPORTING ENTITY

Reporting Entity

Monte Vista Fire Protection District (the District) is a fire protection district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter ("county"). The County of San Bernardino was established in 1852 as a legal subdivision of the State of California. The District's powers are exercised through a Board of Supervisors ("Board"), which is the governing body for the County. The District provides fire protection services for an unincorporated area southwest of the City of Montclair.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on July 19, 1948 with active powers of fire protection and emergency medical services for an unincorporated area southwest of the City of Montclair through a contract.

The District is a component unit of the County of San Bernardino. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District utilizes a special revenue fund. It accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head.

Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties ("CSAC") Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: SELF INSURANCE - *Continued*

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802

NOTE 4: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 5: CONTRACTED FIRE PROTECTION SERVICES

The District receives fire protection and prevention services under contract from the City of Montclair. The District pays the City of Montclair the tax revenue received by the District in return for services.

**County of San Bernardino
Monte Vista Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2003**

Fire Protection	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Favorable (Unfavorable)
Budgetary fund balance				
July 1, 2002	\$ 50,981	\$ 56,684	\$ 56,684	\$ -
Resources (inflows):				
Property Taxes	221,435	238,587	254,056	15,469
Interest	3,200	3,200	3,903	703
Other Revenue	-	-	377	377
Amounts available for appropriation:	275,616	298,471	315,020	16,549
Charges to appropriations (outflows)				
Professional Services	275,616	291,555	236,387	55,168
Materials and Supplies	-	6,916	6,916	-
Reimbursements	-	-	-	-
Total charges to Appropriations	275,616	298,471	243,303	55,168
Budgetary Fund Balance, June 30, 2003	\$ -	\$ -	\$ 71,717	\$ 71,717

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
BIG BEAR VALLEY PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

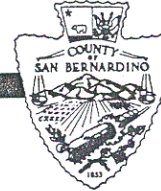
Internal Audits Section
Office of the Auditor/Controller-Recorder
March 31, 2004

County of San Bernardino Special Districts
Big Bear Valley Park and Recreation District

Table of Contents

	Page
Independent Auditor’s Report	1 - 2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet.....	5
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	7
Notes to the Financial Statements	8 - 19
Required Supplementary Information	
Budgetary Comparison Schedule – Special Revenue Funds	20 - 21

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

March 31, 2004

Thomas Sutton, Interim Director

Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF BIG BEAR VALLEY PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Big Bear Valley Park and Recreation District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining aggregate fund information of the County of San Bernardino's Special District Big Bear Valley Park and Recreation District (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on pages 20 – 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

LDW:BKR:spr.1

Date Report Distributed: _____

County of San Bernardino
Big Bear Valley Park and Recreation District
Statement of Net Assets
June 30, 2003

ASSETS

Current assets:

Cash and cash equivalents	\$ 275,938
Accounts receivable	51,409
Taxes receivable	56,530
Interest receivable	991
Total current assets	<u>384,868</u>

Noncurrent assets:

Capital assets:

Land	171,057
Improvements to land	1,005,478
Structures and improvements	1,450,154
Vehicles	288,625
Equipment	24,136
Less accumulated depreciation	<u>(1,243,474)</u>
Total noncurrent assets	<u>1,695,976</u>
Total assets	<u><u>\$ 2,080,844</u></u>

LIABILITIES

Current liabilities:

Salaries and benefits payable	\$ 54,512
Accounts payable - encumbered	25,678
Due to other funds	119
Employee compensated absences	<u>77,141</u>
Total current liabilities	157,450

NET ASSETS

Invested in capital assets	1,695,976
Restricted	15,956
Unrestricted	<u>211,462</u>
Total net assets	<u>1,923,394</u>
Total liabilities and net assets	<u><u>\$ 2,080,844</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Big Bear Valley Park and Recreation District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Park (CRP, SSA)	Zoo (SSC, SSF)	Total Governmental Activities
EXPENSES			
Salaries and benefits	\$ 917,170	\$ 229,653	\$ 1,146,823
Professional Services	40,958	1,584	42,542
Services and supplies	308,589	72,558	381,147
Utilities	84,356	-	84,356
Rents and leases	14,952	2,948	17,900
Loss on disposition of fixed assets	36,853	-	36,853
Depreciation	79,897	713	80,610
Total expenses	1,482,775	307,456	1,790,231
PROGRAM REVENUES			
Charges for services	354,981	269,988	624,969
Total program revenues	354,981	269,988	624,969
Net program (expense) revenue	(1,127,794)	(37,468)	(1,165,262)
GENERAL REVENUES			
Property taxes	951,954	67,323	1,019,277
Government aid	21,198	-	21,198
Interest	992	4,452	5,444
Gain on sale of fixed asset	386	-	386
Other revenues	2,206	1,069	3,275
Contributions	-	6,928	6,928
Total general revenues	976,736	79,772	1,056,508
Change in net assets	(151,058)	42,304	(108,754)
Net assets - beginning	1,906,915	125,233	2,032,148
Net assets - ending	\$ 1,755,857	\$ 167,537	\$ 1,923,394

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Balance Sheet
Governmental Funds
June 30, 2003**

	Park (CRP, SSA)	Zoo (SSC, SSF)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 125,251	\$ 150,687	\$ 275,938
Accounts receivable	23,228	28,181	51,409
Taxes receivable	56,530	-	56,530
Interest receivable	131	860	991
Total assets	<u>\$ 205,140</u>	<u>\$ 179,728</u>	<u>\$ 384,868</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 43,033	\$ 11,479	\$ 54,512
Accounts Payable - encumbrances	-	25,678	25,678
Due to other funds	119	-	119
Total liabilities	<u>43,152</u>	<u>37,157</u>	<u>80,309</u>
Fund balances:			
Reserved - imprest	675	-	675
Reserved - special purpose	70,620	-	70,620
Reserved - encumbrances	79,228	(25,678)	53,550
Unreserved	11,465	168,249	179,714
Total fund balances	<u>161,988</u>	<u>142,571</u>	<u>304,559</u>
Total liabilities and fund balances	<u>\$ 205,140</u>	<u>\$ 179,728</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets and long-term liabilities used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>1,618,835</u>
Net assets of governmental activities	<u>\$ 1,923,394</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Big Bear Valley Park and Recreation District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	Park (CRP, SSA)	Zoo (SSC, SSF)	Total Governmental Funds
REVENUES			
Property taxes	\$ 951,954	\$ 67,323	\$ 1,019,277
Charges for services	354,981	269,988	624,969
Interest	992	4,452	5,444
Government aid	21,198	-	21,198
Other revenues	2,205	1,069	3,274
Gain on sale of fixed assets	386	-	386
Contributions	-	6,928	6,928
Total revenues	<u>1,331,716</u>	<u>349,760</u>	<u>1,681,476</u>
EXPENDITURES			
Salaries and benefits	886,819	229,653	1,116,472
Professional services	40,958	1,584	42,542
Services and supplies	308,589	72,558	381,147
Utilities	84,357	-	84,357
Rents and leases	14,952	2,948	17,900
Capital outlay	43,035	25,678	68,713
Total expenditures	<u>1,378,710</u>	<u>332,421</u>	<u>1,711,131</u>
Excess of revenues over (under) expenditures	<u>(46,994)</u>	<u>17,339</u>	<u>(29,655)</u>
Net change in fund balances	(46,994)	17,339	(29,655)
Fund balances - beginning	<u>208,982</u>	<u>125,232</u>	<u>334,214</u>
Fund balances - ending	<u><u>\$ 161,988</u></u>	<u><u>\$ 142,571</u></u>	<u><u>\$ 304,559</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances - total governmental funds	\$ (29,655)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(11,897)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Changes in Employee Compensated Absences	(30,349)
Loss on Disposition of Fixed Assets	<u>(36,853)</u>
Change in net assets of governmental activities	<u>\$ (108,754)</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Big Bear Valley Park and Recreation District ("District") is a park and recreation district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter ("County"). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on April 23, 1934. The governmental reporting entity maintains nine parks, including a zoo, swim beach, and senior center.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the Big Bear Valley Park and Recreation District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Currently, the District does not have any proprietary or fiduciary fund types.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The government reports the following major governmental funds:

The *special revenue and capital project fund* labeled "Park" is the government's primary operating funds. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Zoo" accounts for the Moonridge Animal Park Zoo and zoo projects.

The District accounts for the financial resources and the acquisition and construction of recreational facilities by using capital project sub funds within the District.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Vehicles	6 – 15
Structures & improvements	15 – 45
Improvements to land	15 – 45

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retire.

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Compensated Absences	<u>\$ 46,793</u>	<u>\$ 61,746</u>	<u>\$ 31,398</u>	<u>\$ 77,141</u>

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$658 difference are as follows:

Capital outlay	\$ 68,713
Depreciation expense	<u>(80,610)</u>
 <i>Net adjustment to decrease net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	
	<u><u>\$ (11,897)</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stewardship, compliance and accountability continued

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Big Bear Valley Park and Recreation District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
<i>Capital assets, not being depreciated</i>				
Land	\$ 171,057	\$ -	\$ -	\$ 171,057
Construction in progress	56,541	1,666	(58,207)	-
Total capital assets, not being depreciated	227,598	1,666	(58,207)	171,057
<i>Capital assets, being depreciated</i>				
Improvements to land	947,271	58,207	-	1,005,478
Structures and improvements	1,540,202	-	(90,048)	1,450,154
Vehicles	228,273	67,047	(6,695)	288,625
Equipment	24,136	-	-	24,136
Total capital assets, being depreciated	2,739,882	125,254	(96,743)	2,768,393
Less accumulated depreciation for:				
Improvements to land	(480,365)	(32,688)	-	(513,053)
Structures and improvements	(543,514)	(30,865)	53,195	(521,184)
Vehicles	(175,148)	(16,648)	6,695	(185,101)
Equipment	(23,726)	(410)	-	(24,136)
Total accumulated depreciation	(1,222,753)	(80,611)	59,890	(1,243,474)
Total capital assets, being depreciated, net	1,517,129	44,643	(36,853)	1,524,919
Government-type activities capital assets, net	\$ 1,744,727	\$ 46,309	\$ (95,060)	\$ 1,695,976

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees Retirement Association ("SBCERA") is a cost-sharing multiple-employer defined benefit pension plan ("Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the District pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino ("County"). The District did not incur any insurance costs or annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties ("CSAC") Excess Insurance Authority ("EIA") Liability Program II.

Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$41,124,812 at June 30, 2003.

The total County claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: SELF INSURANCE – Continued

statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2002-2003	\$ 95,288	\$ 30,685	\$ (32,171)	\$ 93,802
2001-2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 8: SPECIAL PURPOSE REVOLVING FUNDS

The District operates revolving cash funds for the purpose of conducting and supervising special recreational activities. The funds generated by the special activities are kept in a commercial bank. Because the recreational activities are self-funded and not part of the District's budget, only the cash balance and related equity are recorded on the District's general fund balance sheet. Profits earned from special activities are reflected as part of park and recreation fees in the general fund. Gross revenues, expenses (including transfers to the general fund), and the cash balance in the fund is shown below:

Cash balance July 1, 2002 (Special Purpose)	\$ 50,102
Cash balance July 1, 2002 (Latch Key Grant)	9,236
Add: revenues	536,723
Less: expenses and transfers	(525,441)
Cash balance June 30, 2003	<u><u>\$ 70,620</u></u>

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt June 30, 2003:	
Net Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 1,695,976
	<u>15,956</u>
Restricted	211,462
Unrestricted	<u><u>\$ 1,923,394</u></u>
Total Net Assets	

Required Supplementary Information
County of San Bernardino
Big Bear Valley Park and Recreation District
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

Schedule One
Page 1 of 2

	Special Revenue Fund			
	Park (SSA)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 839,029	\$ 885,268	\$ 968,042	\$ 82,774
Use of money and property	21,350	25,320	1,378	(23,942)
Current services	397,890	403,620	338,893	(64,727)
Federal aid	-	-	21,198	21,198
Other revenue	157,240	105,531	2,205	(103,326)
Total revenues	1,415,509	1,419,739	1,331,716	(88,023)
EXPENDITURES				
Salaries and benefits	870,651	935,056	886,819	48,237
Services and supplies	476,110	457,362	448,856	8,506
Equipment and vehicles	38,000	41,000	43,035	(2,035)
Reserves and contingencies	71,635	35,563	-	35,563
Total expenditures	1,456,396	1,468,981	1,378,710	90,271
OTHER FINANCING SOURCES (USES)				
Transfers out	(153,310)	(100,000)	-	100,000
Total other financing sources (uses)	(153,310)	(100,000)	-	100,000
Net change in fund balances	\$ (194,197)	\$ (149,242)	(46,994)	\$ 102,248
Fund balances - beginning			208,982	
Fund balances - ending			\$ 161,988	

Required Supplementary Information
County of San Bernardino
Big Bear Valley Park and Recreation District
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

Schedule One
Page 2 of 2

	Special Revenue Fund			
	Zoo (SSF)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 70,323	\$ 67,323	\$ 67,323	\$ -
Use of money and property	-	3,100	4,452	1,352
Current services	240,700	256,700	276,633	19,933
Other revenue	-	500,000	1,352	(498,648)
Total revenues	311,023	827,123	349,760	(477,363)
EXPENDITURES				
Salaries and benefits	230,228	250,860	229,653	21,207
Services and supplies	84,201	90,925	77,090	13,835
Reserves and contingencies	38,167	78,406	25,678	52,728
Total expenditures	352,596	420,191	332,421	87,770
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(500,000)	-	500,000
Total other financing sources (uses)	-	(500,000)	-	500,000
Net change in fund balances	\$ (41,573)	\$ (93,068)	17,339	\$ 110,407
Fund balances - beginning			125,232	
Fund balances - ending			\$ 142,571	

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
TWENTYNINE PALMS PUBLIC
CEMETERY DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
February 6, 2004

**County of San Bernardino Special Districts
Twentynine Palms Public Cemetery District**

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	8
Statement of Changes in Fiduciary Net Assets	9
Notes to the Financial Statements	10 - 19
Required Supplementary Information	
Budgetary Comparison Schedule	20

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

February 6, 2004

Sandra J. Gray, Chairwoman

Board of Trustees

Twentynine Palms Public Cemetery District

5350 Encelia Avenue

Twentynine Palms, CA 92277

**SUBJECT: AUDIT OF TWENTYNINE PALMS PUBLIC CEMETERY DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Twentynine Palms Public Cemetery District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate fund information of the County of San Bernardino Special Districts Twentynine Palms Public Cemetery District (the "District"), an independent special district of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the remaining aggregate fund information of the District, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker

Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

Audit Report Distributed: _____

LDW:BKR:RAT:dlp2

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Net Assets
June 30, 2003**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 461,523
Interest receivable	<u>1,237</u>
Total current assets	<u>462,760</u>
Noncurrent assets:	
Capital assets:	
Land	23,797
Structures and improvements	317,759
Vehicles	67,838
Equipment	9,565
Less accumulated depreciation	<u>(270,577)</u>
Total noncurrent assets	<u>148,382</u>
Total assets	<u><u>\$ 611,142</u></u>
NET ASSETS	
Invested in capital assets	\$ 148,382
Restricted for:	
Nonexpendable - principal	144,114
Expendable - interest	140,454
Unrestricted	<u>178,192</u>
Total net assets	<u><u>\$ 611,142</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 96,198
Services and supplies	61,833
Depreciation	11,191
	<hr/>
Total expenses	169,222
	<hr/>
PROGRAM REVENUES	
Charges for services	24,342
	<hr/>
Total program revenues	24,342
	<hr/>
Net program expense	(144,880)
	<hr/>
GENERAL REVENUES	
Property taxes	94,899
Other taxes	3,542
State aid	1,927
Operating transfers in	11,767
Interest	29,059
Other	16,102
	<hr/>
Total general revenues	157,296
	<hr/>
Change in net assets	12,416
	<hr/>
Net assets - beginning	598,726
	<hr/>
Net assets - ending	\$ 611,142
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Balance Sheet
June 30, 2003**

	General (MAV)	Permanent Fund Endowment Care (MBA)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 177,226	\$ 284,297	\$ 461,523
Interest receivable	966	271	1,237
Total assets	<u>\$ 178,192</u>	<u>\$ 284,568</u>	<u>\$ 462,760</u>

FUND BALANCES

Fund balances:			
Unreserved	\$ 178,192	\$ -	\$ 178,192
Reserved for:			
Nonexpendable - principal	-	144,114	144,114
Expendable - interest	<u>-</u>	<u>140,454</u>	<u>140,454</u>
Total fund balances	<u>178,192</u>	<u>284,568</u>	462,760
Total fund balances	<u><u>\$ 178,192</u></u>	<u><u>\$ 284,568</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>148,382</u>
Net assets of governmental activities	<u><u>\$ 611,142</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Revenues,
Expenditures, and Changes in Fund Balances
Government Funds
For the Fiscal Year June 30, 2003**

	General (MAV)	Permanent Fund Endowment Care (MBA)	Total Governmental Funds
REVENUES			
Charges for services	\$ 24,342	\$ -	\$ 24,342
Interest	4,773	24,286	29,059
Property taxes	94,899	-	94,899
Other taxes	3,542	-	3,542
State aid	1,927	-	1,927
Other	11,762	4,340	16,102
	<u>141,245</u>	<u>28,626</u>	<u>169,871</u>
Total revenues			
	<u>141,245</u>	<u>28,626</u>	<u>169,871</u>
EXPENDITURES			
Salaries and benefits	96,198	-	96,198
Services and supplies	61,833	-	61,833
	<u>158,031</u>	<u>-</u>	<u>158,031</u>
Total expenditures			
	<u>158,031</u>	<u>-</u>	<u>158,031</u>
Excess of revenues over (under) expenditures	<u>(16,786)</u>	<u>28,626</u>	<u>11,840</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	11,767	-	11,767
	<u>11,767</u>	<u>-</u>	<u>11,767</u>
Total other financing sources (uses)			
	<u>11,767</u>	<u>-</u>	<u>11,767</u>
Net change in fund balances	(5,019)	28,626	23,607
Fund balances - beginning	<u>183,211</u>	<u>255,942</u>	<u>439,153</u>
Fund balances - ending	<u>\$ 178,192</u>	<u>\$ 284,568</u>	<u>\$ 462,760</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Government Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances - total governmental funds	\$ 23,607
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

(11,191)

Change in net assets of governmental activities

\$ 12,416

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003**

	Private-Purpose Trust Fund
	Pre-Need Burial (MAY)
ASSETS	
Cash and cash equivalents	\$ 205,411
Receivables	<u>13,587</u>
Total assets	<u><u>\$ 218,998</u></u>
 NET ASSETS	
Held in trust	<u><u>\$ 218,998</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2003**

	Private-Purpose Trust Fund Pre-Need Burial (MAY)
ADDITIONS	
Contributions	\$ 13,700
Investment earnings - interest	5,860
Total additions	<u>19,560</u>
DEDUCTIONS	
Operating transfers out	<u>11,766</u>
Total deductions	<u>11,766</u>
Change in net assets	7,794
Net assets - beginning	<u>211,204</u>
Net assets - ending	<u><u>\$ 218,998</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Twentynine Palms Public Cemetery District (the District) created in 1934 is an independent special district located within the County of San Bernardino. The District was established to provide cemetery service to the community of Twentynine Palms, California.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity among governmental activities has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* labeled “General” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *permanent fund* labeled “Endowment Care” provides resources that are legally restricted to the extent that only earnings and no principal (corpus) may be used for purposes that support the reporting government’s programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fiduciary funds are used to account for assets held by the District as an agent or trustee for individuals, private organizations, other governments and/or other funds. The Pre-Need Burial Fund is a private-purpose trust fund which transfers funds from its earnings to the General fund to finance burial expenditures. The modified accrual basis of accounting is used for the fiduciary fund.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the District does not have any business-type activities. All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	15 – 45
Equipment and vehicles	6 – 20

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The difference of \$11,191 relates to depreciation.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds must be approved by the Board. Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2003.

A portion of the Endowment Care Fund is invested in U.S. Treasury Securities with a private broker. In accordance with GASB Statement No. 31, the District's investment is categorized to give an indication of the level of credit risk assumed by the District. The District's investments are categorized in the following manner:

Category 1 - Insured or registered, or security held by the District or its agent in the Districts' name.

	<u>Category 1</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 232,942	\$ 232,942

The District reports cash equivalents according to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The District's investments are reported at fair value, based upon reported closing sales prices. The District intends to hold investments until maturity. The value of the investments will fluctuate on a daily basis as a result of a multitude of factors, including

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 2: CASH AND CASH EQUIVALENTS - *Continued*

generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the investments will not vary significantly from the values described herein.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2003 follows:

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 23,797	\$ -	\$ -	\$ 23,797
Total capital assets not being depreciated	23,797	-	-	23,797
Capital assets being depreciated:				
Improvements to land	-	-	-	0
Structures and improvements	317,759	-	-	317,759
Vehicles	67,838	-	-	67,838
Equipment	9,565	-	-	9,565
Total capital assets being depreciated	395,162	-	-	395,162
Less accumulated depreciation for:				
Improvements to land	-	-	-	0
Structures and improvements	222,738	6,729	-	229,467
Vehicles	27,811	4,025	-	31,836
Equipment	8,837	437	-	9,274
Total accumulated depreciation	259,386	11,191	-	270,577
Total capital assets being depreciated, net	135,776	(11,191)	-	124,585
Total net capital assets	\$ 159,573	\$ (11,191)	\$ -	\$ 148,382

NOTE 4: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: TRANSFERS IN/OUT - *Continued*

operating fund, and transfer cash between operating funds and any capital project funds. At June 30, 2003, the District made the following interfund transfers in and out:

Fund	Purpose	Amount
MAV	To MAY - for operations	\$ 11,767
MAY	From MAV - for operations	<u>(11,767)</u>
		<u><u>\$ -</u></u>

NOTE 5: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 6: NET ASSETS

The government-wide fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets, as well as any premium or discount paid on debt, reduce the balance in this category. At June 30, 2003, the District reported capital assets of \$148,382.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulation of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2003, the District reported restricted net assets of \$284,568.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 6: NET ASSETS - *Continued*

- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose. At June 30, 2003, the District reported unrestricted net assets of \$178,192.

Net assets represent the difference between assets and liabilities. The District's net assets at June 30, 2003 were \$611,142.

The net assets schedule for the year ended June 30, 2003 follows:

		<u>Governmental Activities</u>
Invested in capital assets		\$ 148,382
Restricted for:		
Nonexpendable - principal	144,114	
Expendable - interest	<u>140,454</u>	284,568
Unrestricted		<u>178,192</u>
Total net assets		<u><u>\$ 611,142</u></u>

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 7: INSURANCE

The District is insured with American Alternative Insurance Company. The schedule of insurance coverage is as follows:

Coverage	Limit of Insurance	
Bodily injury and Property Damage	\$1,000,000	Per occurrence
	\$3,000,000	Bodily injury and property damage aggregate
Personal injury and advertising injury	\$1,000,000	Per person or organization
	\$3,000,000	Personal injury and advertising injury aggregate
Employment-related practices injury	\$1,000,000	Per claim
	\$3,000,000	Employment-related practices injury aggregate
Professional Liability	\$1,000,000	Per claim
	\$3,000,000	Professional Liability Aggregate
Wrongful acts	\$1,000,000	Per claim
	\$3,000,000	Wrongful acts aggregate
Employee benefits liability	\$1,000,000	Per person
	\$3,000,000	Employee benefits liability aggregate
Damage to premises rented to you	\$1,000,000	Any one premises
Medical expense	\$ 10,000	Per accident
<u>Automobile Coverage:</u>		
Liability	\$1,000,000	Each accident
Auto medical payments	\$ 10,000	Each person
Uninsured motorist	\$1,000,000	Each accident
Comprehensive		Agreed value, actual cash value or cost of repairs whichever is less, minus deductible

The Tri Star Insurance Company provides the District with Workers' Compensation Insurance for all employees in extra or full time positions. This insurance provides up to \$1,000,000 for bodily injury per occurrence. Unemployment insurance is provided through the State of California's Employment Development Department.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 8: RETIREMENT

The Presidential Life Insurance Company carries the District's IRA retirement plan. Employees are eligible to participate in the plan at the end of the employee's probationary period. The District advances annual contributions to the IRA of \$2,000 per employee. The plan is 100% immediately vested. The employees reimburse the District for their share at 4% of their gross pay – to the maximum allowable – to be repaid in 24 equal payroll deductions each year. The employees must sign a Reimbursement Agreement which is kept in the District's Retirement file. Accordingly, if an employee terminates employment before reimbursing the District for their annual contribution, the balance due will be payable at that time.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2003**

Budgetary fund balance, July 1, 2002	\$ 183,211	\$ 183,211	\$ 183,211	\$ -
Resources (inflows):				
Property taxes	97,000	97,000	94,899	(2,101)
State aid	-	-	1,927	1,927
Interest	3,000	3,000	4,773	1,773
Operating transfers in	2,000	2,000	11,767	9,767
Charges for services	18,725	18,725	24,342	5,617
Other taxes	-	-	3,542	3,542
Other revenue	5,510	5,510	11,762	6,252
Amounts available for appropriation	309,446	309,446	336,223	26,777
Charges to appropriations (outflows):				
Salaries and benefits	102,500	103,072	96,198	6,874
Services and supplies	79,725	76,925	61,833	17,892
Capital outlay	73,626	86,673	-	86,673
General reserve	5,000	5,000	-	5,000
Improvements grounds/ buildings	5,000	5,000	-	5,000
Equipment	5,000	5,000	-	5,000
Appropriation and contingencies	10,000	10,000	-	10,000
Total charges to appropriations	280,851	291,670	158,031	136,439
Budgetary fund balance, June 30, 2003	\$ 28,595	\$ 17,776	\$ 178,192	\$ 163,216

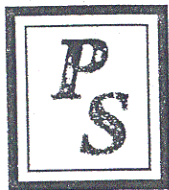
**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
CRIME LAB IMPROVEMENT PROGRAM GRANT
Contract # LF01010360**

**Financial Statement
With
Independent Auditors' Reports**

**For the Thirteen Months Ended
April 30, 2004**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Statement of Grant Revenues and Expenditures	3
Notes to Financial Statement	4
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5
Schedule of Findings and Questioned Costs	7



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Crime Lab Improvement Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # LF01010360 for the thirteen months ended April 30, 2004. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department Crime Lab Improvement Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # LF01010360 for the thirteen months ended April 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2004, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

May 4, 2004

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
CRIME LAB IMPROVEMENT PROGRAM GRANT
CONTRACT # LF01010360**

Statement of Grant Revenues and Expenditures

For the Thirteen Months Ended April 30, 2004

Revenues

Reimbursements received/receivable	\$ 18,096
------------------------------------	-----------

Expenditures

Services and supplies	18,096
-----------------------	--------

Total expenditures	18,096
--------------------	--------

Excess of revenues over expenditures	\$ -
--------------------------------------	------

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
CRIME LAB IMPROVEMENT PROGRAM GRANT
CONTRACT # LF01010360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Crime Lab Improvement Program Grant Contract # LF01010360 for the thirteen months ended April 30, 2004. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenditures presents only the activities of the Crime Lab Improvement Program Grant Contract # LF01010360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to purchase a Scanning Electron Microscope/Energy Dispersive X-ray (SEM/EDX) instrument, including the appropriate training. The primary application is in the analysis of gunshot residue samples taken from the hands of subjects who may have fired or handled a firearm.

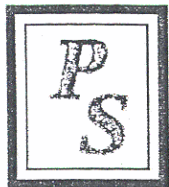
The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Crime Lab Improvement Program Grant Contract # LF01010360 by the San Bernardino County Sheriff's Department and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Crime Lab Improvement Program Grant Contract in accordance with the State of California's Office of Criminal Justice Planning Contract # LF01010360 for the thirteen months ended April 30, 2004 and have issued our report thereon dated May 4, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

May 4, 2004

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
CRIME LAB IMPROVEMENT PROGRAM GRANT
CONTRACT # LF01010360**

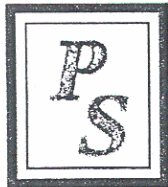
**Schedule of Findings and Questioned Costs
For the Thirteen Months Ended April 30, 2004**

Findings and Questions Costs for the Thirteen Months Ended April 30, 2004:

No findings to be reported.

Status of Prior Findings and Questioned Costs:

No prior findings



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) Crime Lab Improvement Program Grant for the thirteen months ended April 30, 2004 and have issued our report thereon dated May 4, 2004. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Crime Lab Improvement Program Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the California Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Crime Lab Improvement Program Grant during the year months that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the thirteen months ended April 30, 2004.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year months prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

Lowell & Spafford, LLP

May 4, 2004